



A COMPARATIVE STUDY OF THE PERFORMANCE OF MUTUAL FUND SCHEMES OF FIVE ASSET MANAGEMENT COMPANIES

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ABSTRACT

Mutual Funds have become a widely popular and effective way for investors to participate in financial markets in an easy, low-cost fashion, while multiplying risk characteristics by spreading the investment across different types of securities, also known as diversification. It can play a central role in an individual's investment strategy. They offer the potential for capital growth and income through investment performance, dividends and distribution under the guidance of a portfolio manager who makes investment decisions on behalf of mutual funds unit holder. In this study the researcher aims at analyzing the performance of some selected AMC's with the most preferred funds in the mutual fund industry on the basis of the returns, risk and volatility. The study is based on the secondary data published by AMC's known as Fact Sheet. The researcher has found that the performance of Equity diversified funds is satisfactory on all parameters.

KEY WORDS: Mutual fund, Asset Management Companies, Performance Analysis.

1. INTRODUCTION:

Over the past decade, mutual funds have increasingly become the investor's vehicle of choice for long term investment. It becomes pertinent to study the performance of mutual fund. The relation between risk-return determines the performance of mutual funds schemes. As risk is commensurate with return, therefore, providing maximum return on the investment made within the acceptable associated risk level helps in segregating the better performance from the laggards. Many asset management companies are working in India, so it is necessary to study the performance of it which may be useful for the investors to select the right mutual fund.

A mutual fund is a common pool of money into which investors with common investment objectives place their contributions that are to be invested, in accordance with the stated objective of the scheme. The mutual fund industry started in India in a small way with the UTI Act creating what was effectively a small savings division with the RBI. Over a period of 25 years this grew fairly successfully and gave investors a good return and therefore in 1989, as the next logical step, public sector banks and financial institutions were allowed a float mutual funds and their success emboldened the government to allow the private sector to foray into this area.

The advantages of mutual fund are professional management, diversification, economies of scale, simplicity and liquidity. The disadvantages of mutual funds are their costs and fees it include Purchase fee, Redemption fee, Exchange fee, management fee, Account fee and transaction costs. There are some loads which add to the cost of mutual fund. A load is a type of commission depending on the type of funds. Mutual funds are easy to buy and sell. Before investing in any fund one should consider some factor like objective, risk, Fund manager's and scheme track record, cost factor etc. There are many types of mutual funds. You can classify funds based structure (open-ended and close-ended), Nature (equity, debt, balanced), Investment objective (growth, income, money market) etc. A code of conduct and registration structure for mutual fund intermediaries, which were subsequently mandated by SEBI. In addition, AMFI was involved in a number of developments and enhancements to the regulatory framework.

2. STATEMENT OF THE PROBLEM

Mutual fund is an emerging area. But common people have a lot of confusion in selecting the best mutual fund for investment. The study aims at measurement of performance of mutual fund schemes in terms of return, risk and fluctuations. It helps the investors to select the best mutual fund scheme to invest their money.

3. OBJECTIVES OF THE STUDY:

- To understand some of the mutual fund schemes.
- To evaluate and compare the performance of equity diversified Tax benefit funds and infrastructure mutual fund schemes of selected Asset Management companies.
- To conduct comparative analysis of various categories of selected mutual fund schemes, on the basis of NAV, Beta and Standard deviation.
- To study the systematic risk and return.

4. SCOPE OF THE STUDY:

The study is basically made to analyze the various schemes to highlight the diver-

sity of investments that mutual fund offer. Through the study one would understand how common man could fruitfully convert pittance into great penny by wisely investing into the right scheme according to his risk abilities.

5. RESEARCH METHODOLOGY

Method of Analysis:

The present study made an attempt to analyze and compare the comparative study of mutual funds schemes in equity diversified funds, Tax benefit funds and infrastructure funds with special reference to UTI mutual funds. Different statistical and financial tools are used to evaluate the performance of these mutual funds schemes under the present study. These tools and techniques include standard deviation, beta etc.

Secondary data is taken as a basis of analysis in this research. Major five asset management companies (AMCs) is selected. Five equity diversified mutual funds schemes, Tax benefit funds, Infrastructure funds etc each from selected AMC's is selected randomly. The reference period for the data is taken from December 2014 – 2016.

Source of Data:

For the purpose of the study the data has been collected from secondary sources which include AMFI reports on mutual funds and RBI Bulletin, Company websites, Journals etc.

Tools of analysis:

NAV, Beta, Standard deviation and Averages

6. REVIEW OF LITERATURE

- Friend, et al., (1962) made an extensive and systematic study of 152 mutual funds found that mutual fund schemes earned an average annual return of 12.4 percent, while their composite benchmark earned a return of 12.6 percent. Their alpha was negative with 20 basis points. Overall results did not suggest widespread inefficiency in the industry. Comparison of fund returns with turnover and expense categories did not reveal a strong relationship.
- Irwin, Brown, FE (1965) analyzed issues relating to investment policy, portfolio turnover rate, performance of mutual funds and its impact on the stock markets. They identified that mutual funds had a significant impact on the price movement in the stock market. They concluded that, on an average, funds did not perform better than the composite markets and there was no persistent relationship between portfolio turnover and fund performance.
- Treynor (1965) used 'characteristic line' for relating expected rate of return of a fund to the rate of return of a suitable market average. He coined a fund performance measure taking investment risk into account. Further, to deal with a portfolio, 'portfolio-possibility line' was used to relate expected return to the portfolio owner's risk preference.
- Ansari (1993) stressed the need for mutual funds to bring in innovative schemes suitable to the varied needs of the small savers in order to become predominant financial service institution in the country.
- Sharpe, William F (1966) developed a composite measure of return and risk. He evaluated 34 open-end mutual funds for the period 1944-63. Reward to variability ratio for each scheme was significantly less than DJIA (Dow

Jones Industrial Average) and ranged from 0.43 to 0.78. Expense ratio was inversely related with the fund performance, as correlation coefficient was 0.0505. The results depicted that good performance was associated with low expense ratio and not with the size. Sample schemes showed consistency in risk measure.

- Shashikant Uma (1993) critically examined the rationale and relevance of mutual fund operations in Indian Money Markets. She pointed out that money market mutual funds with low-risk and low return offered conservative investors a reliable investment avenue for short-term investment.

Related Parameters:

Net Asset Value: NAV is an important parameter used to measure the operational efficiency of mutual funds. The intrinsic value of a unit under a particular scheme is referred to as the 'NAV' of the scheme. The value gives an idea of the amount that may be obtained by the unit holder on its sale to the mutual fund company. NAV of a unit is calculated as follows;

$$\text{NAV per unit} = \frac{[\text{TMV} - \text{CL}]}{\text{SU}}$$

Where,

TMV = Total market value of investment portfolio +
The written down value of fixed assets +
the cost value of other current assets

CL = current liabilities

SU = Number of outstanding units in that scheme

For the purpose of determining the NAV, the scheme of accounting practices as prescribed by the SEBI regulations of 1996 should be followed.

Standard Deviation: In finance, standard deviation is applied to the annual rate of return of an investment to measure the investment's volatility (risk). A volatile stock would have a high standard deviation. In mutual funds, the standard deviation tells us how much the return on the fund is deviating from the expected normal returns.

Beta: Beta is an investor's volatility vis-a-vis the market. Beta less than 1 means that the security will be less volatile than the market. A beta of greater than 1 implies that the security's price will be more volatile than the market.

Beta is a measure used in fundamental analysis to determine the volatility of an asset or portfolio in relation to the overall market. To calculate the beta of a security, the covariance between the return of the security and the return of market must be known, as well as the variance of the market returns.

Beta > 1 Aggressive Beta = 1 Neutral Beta < 1 Defensive

7. RESULTS AND DISCUSSION

7.1 Comparison of Net Asset Value of Funds:

7.2.1. Equity diversified Fund

Table No.7.2.1

Name of Fund House	Name of Mutual Fund Scheme	2014	2015	2016	Average
UTI	UTI Master Share Unit Scheme	60.57	88.62	88.56	79.25
ICICI	ICICI Prudential Dynamic Plan	135.0815	185.1285	182.52	167.5766667
HDFC	HDFC Equity Fund	304.632	468.439	444.61	405.8936667
BIRLA	BIRLA Sun Life Front Line Equity Fund	105.13	159.43	158.76	141.1066667
SBI	SBI Magnum Comma Fund	17.8781	25.1343	22.2713	21.76123333

Source: Fact Sheets (2014-16)

7.2.2 Infrastructure Fund

Table No.7.2.2

Name of Fund House	Name of Mutual Fund Scheme	2014	2015	2016
UTI	UTI Infrastructure Fund	0.2	0.197	0.201
ICICI	ICICI Prudential Infrastructure Fund	0.2069	0.2365	0.2177
HDFC	HDFC Infrastructure Fund	0.0826	0.0876	0.07725
BIRLA	BIRLA Sun Life Infrastructure Fund	0.2298	0.2523	0.2226
SBI	SBI Infrastructure Fund	0.2153	0.256	0.2301

Source: Fact Sheets (2014-16)

7.2.3 Tax Fund

Table No.7.2.3

Name of Fund House	Name of Mutual Fund Scheme	2014	2015	2016
UTI	UTI Long Term Equity Fund	0.15	0.113	0.142
ICICI	ICICI Prudential Long Term Equity Fund	0.1792	0.1612	0.147
HDFC	HDFC Tax Saver	0.508	0.524	0.04948
BIRLA	BIRLA Sun Life Tax Saving Fund	0.1685	0.1479	0.1413
SBI	SBI Magnum Taxgain Scheme	0.1709	0.1502	0.1416

Source: Fact Sheets (2014-16)

7.3 Comparison on the Basis of BETA

7.3.1 Equity Fund

Table No.7.3.1

Name of Fund House	Name of Mutual Fund Scheme	2014	2015	2016
UTI	UTI Master Share Unit Scheme	0.86	0.89	0.88
ICICI	ICICI Prudential Dynamic Plan	0.81	0.83	0.82
HDFC	HDFC Equity Fund	1.0264	1.165	1.163
BIRLA	BIRLA Sun Life Front Line Equity Fund	0.9	0.93	0.99
SBI	SBI Magnum Comma Fund	0.81	0.89	0.88

Source: Fact Sheets (2014-16)

7.3.2 Infrastructure Fund

Table No.7.3.2

Name of Fund House	Name of Mutual Fund Scheme	2014	2015	2016
UTI	UTI Infrastructure Fund	1.09	1.36	1.14
ICICI	ICICI Prudential Infrastructure Fund	0.73	0.79	0.83
HDFC	HDFC Infrastructure Fund	1.3367	1.6913	1.661
BIRLA	BIRLA Sun Life Infrastructure Fund	1.08	1.44	1.37
SBI	SBI Infrastructure Fund	0.74	0.82	0.85

Source: Fact Sheets (2014-16)

7.3.3 Tax Fund

Table No.7.3.3

Name of Fund House	Name of Mutual Fund Scheme	2014	2015	2016
UTI	UTI Long Term Equity Fund	0.85	0.82	0.85
ICICI	ICICI Prudential Long Term Equity Fund	0.89	0.92	0.96
HDFC	HDFC Tax Saver	0.8557	1.0204	1.102
BIRLA	BIRLA Sun Life Tax Saving Fund	0.85	0.87	0.94
SBI	SBI Magnum Taxgain Scheme	0.85	0.87	0.94

Source: Fact Sheets (2014-16)

8. FINDINGS:

- From the study conducted the researcher has found out that the performances of equity diversified funds are satisfactory.
- The study revealed that the NAV of all the funds show an upward and downward moving trend.
- The study point out that the selected equity diversified schemes doesn't mark any major fluctuations in their NAV.
- While comparing the performance of fund by analyzing the NAV of equity diversified funds, HDFC Equity Fund marked the highest NAV and SBI Magnum COMMA Fund marked lowest average NAV compare to others.
- After comparing the performance of funds by analyzing the NAV of Infrastructure Funds, UTI Infrastructure Fund has the highest NAV and SBI Infrastructure Fund has the lowest average NAV compared to other Infrastructure Funds.
- In Tax savings funds, NAV of HDFC Tax Saver has highest NAV and Birla Sun Life Mid Cap Fund is highest Birla Sun Life Tax Saving Fund has lowest NAV.

- When looking into the risk and volatility associated with the funds, HDFC Infrastructure Fund is the most risky fund compared to others.

9. DISCUSSIONS:

- NAV of UTI infrastructure fund is high so it should maintain the NAV. Since higher the NAV better the investment.
- SBI Infrastructure fund is having lowest NAV value, so effort should be made to improve the NAV.
- UTI Tax Fund is having low risk compared to other tax fund and is less volatile. So it should maintain that.
- UTI Master Share Unit Scheme is having beta value less than one. So it should maintain that level.
- In infrastructure fund UTI Infrastructure Fund, HDFC Infrastructure Fund and Birla Sun Life Infrastructure Fund is having higher beta value so these funds should try to improve in reducing the beta value.
- When a portfolio includes investments with varied risk level, large losses in one area are offset by other areas. By investing in equity diversified funds, the investors can minimize the risk of fluctuations in particular sector or industry.
- As most of the funds have certain risk factor attached to them it is up to the investor to decide as how to make his/her investments in each fund or sector. This decision absolutely depends upon an investor's capability take risk.
- Steps should be taken for funds to make fair and truthful disclosures of information to the investors, so that subscribers know what risk they are taking by investing in fund.

10. CONCLUSION:

The Indian Mutual Fund industry witnessed a great change with the permission of the entry of private sector funds in 1993, giving the Indian investors a broader choice of 'fund families' and increasing competition for the existing public sector funds. Quite significantly, foreign fund management companies were also allowed to operate mutual funds, most of them coming into India through their joint ventures with Indian promoters. The Indian Mutual Fund industry is growing at a high rate. Individual investors are choosing mutual funds to avoid huge risk involved investing in stocks directly: the risk can be minimized or wiped out by the fund managers with a diversified portfolio. This is the main reason why the Mutual Funds are becoming more and more investable financial asset.

The study was conducted to understand the performance of private sector equity diversified fund. From the study it can be concluded that Mutual Funds performance is satisfactory and has contributed a lot for the development of Mutual fund industry. Mutual Funds offer good investment opportunities to the investors. Like all investments, they also carry certain risks. The investor should compare the risk and expected yield after adjustment of tax on various instruments while taking investment decision. The investors may seek advice from expert and consultants including agents and distributors of Mutual Fund schemes while making investment decisions.

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